



STATE OF INDIANA
OFFICE OF THE GOVERNOR
State House, Second Floor
Indianapolis, Indiana 46204

Mitchell E. Daniels, Jr.
Governor

November 22, 2006

The Honorable Mitchell E. Daniels, Jr.
Governor's Office
200 West Washington Street
Statehouse, Room 206
Indianapolis, IN 46204

Re: Family and Social Services Administration Eligibility Modernization Project

Dear Governor Daniels:

On behalf of the inter-agency Review Committee regarding FSSA's Request for Proposal 6-58, I am pleased to submit to you the Committee's final Report and Recommendation. After careful consideration of the many factors outlined in the Report, the Review Committee recommends that the FSSA Division of Family Resources (DFR) continue to retain responsibility and control over its client eligibility determination system. Included in this recommendation is that all final client eligibility determinations for State-provided public assistance benefits, including TANF, Food Stamps, and Medicaid, be made only by state employees. The Review Committee further recommends that the state adopt a "hybrid approach" to modernization of the overall client eligibility determination process. While this approach preserves some facets of the original vendor responses to RFP 6-58, it is primarily the product of significant Review Committee revisions, based on (a) what it learned from its study of other states' experiences with similar modernization efforts and (b) its analysis of the potential risks involved with modernization in general.

In adopting this hybrid approach, the Review Committee recommends entering into the attached proposed agreement with the International Business Machines Corporation and its Hoosier Coalition for Self-Sufficiency (the IBM Coalition). This agreement would enable DFR to modernize its client eligibility Information Intake Process by utilizing IBM Coalition administrative support and technologies, while, again, continuing to retain responsibility and control over the client eligibility determination system as a whole.

The Review Committee has determined that adopting this hybrid approach will achieve your stated policy objectives, will assure fair treatment of all affected State employees, and will improve the accuracy and accountability of the system by which many FSSA services are delivered to some of the State's most needy citizens. The Review Committee also confirms that the recommended is more cost-effective than all other considered modernization alternatives.

Upon appointing the Review Committee, you recognized that the current system of delivering benefit services to the State's neediest citizens is broken and needs change. You asked the Review Committee to evaluate the potential solutions that were proposed in response to FSSA

RFP 6-58. In addition, you also directed the Review Committee to consider modernization in the context of achieving the following objectives:

- Meeting the goals of improved welfare reform efforts and improving public assistance policies and procedures,
- Satisfying the State's request that State employees who go to work for the selected vendor receive the same or better base salary and comparable benefits,
- Being in the best interests of Indiana's taxpayers, and
- Providing short-term and long-term economic benefits to the State.

As further detailed in the Report, the Review Committee concludes that the recommended solution satisfies each of the above objectives as follows:

- Improves delivery of and access to FSSA benefit services by modernizing access through telephone and web-based access points, while still continuing the presence of offices in each of the State's counties.
- Assures fair treatment of the State employees who would transition to the IBM Coalition by requiring that they are provided the same or better salaries, comparable benefits, and are assured continued employment for at least two (2) years (subject to employer's normal disciplinary procedures).
- Modernizes the eligibility Information Intake Process through utilization of modern business techniques and procedures, such as document imaging, call center operations, and utilization of the Internet.
- Assures the protection of confidential personal information through the establishment of modernized security procedures and protocols for handling personal information.
- Assures a higher level of integrity and accountability in the eligibility determination process by standardizing procedures used in all of the service locations at which services are available.

Considering the balance between the mitigation of risk and the highest chances for success, the Review Committee believes the recommended solution is a cost-effective modernization approach. The financial analysis included in the Report indicates that over ten (10) years, implementing this recommendation will generate savings of (a) more than \$340 million when compared to continuing current operations, and (b) an estimated \$490 million when compared to developing an internal modernization solution.

During its deliberations, the Review Committee identified several areas of potentially significant risk in successfully implementing the recommended solution. As the Report indicates in greater detail, the Review Committee spent a considerable amount of time studying the risks associated with other modernization efforts, and believe that the following steps will enhance the State's ability to achieve a successful modernization:

- The State retains a significant number of employees who will continue to be solely in charge of making final eligibility determinations and will be involved in overseeing the services provided by the IBM Coalition.
- The recommended solution will be implemented in phases, by regions of the State.
- The State's current computer-based systems of record will remain in place.
- The recommended solution focuses on the eligibility Information Intake Process alone and does not require the implementation of significant new policy initiatives.
- The IBM Coalition is given financial incentives for achieving levels of service above targets set by the State, as well as disincentives for service that falls below target levels.

In summary, the Review Committee has determined that adopting a hybrid approach and utilizing the recommended solution achieves the policy objectives you have identified, does so in a cost-effective manner, avoids and minimizes the risks of failure demonstrated in other states, and is ultimately in the best interests of the State and its citizens to pursue. Accordingly, the Review Committee recommends (a) adopting a hybrid approach as supported by the IBM Coalition Solution and (b) entering, subject to the appropriate statutory procedures, into the proposed agreement with the IBM Coalition.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Earl A. Goode", written in a cursive style.

Earl A. Goode
Chair of Review Committee

**REPORT AND RECOMMENDATION
OF
INTER-AGENCY REVIEW COMMITTEE
PURSUANT TO IC 5-23
REGARDING
FSSA RFP # 6-58
NOVEMBER 22, 2006**

Table of Contents

I. Introduction	
The Review Committee's Task	3
Summary of the Review Committee Recommendation.....	4
II. Approach of the Review Committee	
Review Committee Activities.....	9
Information Reviewed by the Review Committee.....	9
III. Examination of Current DFR Operations	
Brief Description of FSSA.....	10
DFR: The Face of Public Assistance.....	10
IV. Examination of Modernization with Internal vs. External Resources	
FSSA Services.....	12
Barriers to DFR Internal Modernization.....	13
V. Addressing the Problems: the Advantages of Modernization	
Better Client Service.....	14
Reduced Process and Eligibility Determination Errors.....	15
Improved Welfare-to-Work Record.....	15
Reduced Delays.....	16
Fraud Mitigation.....	17
VI. Impact of the IBM Coalition Solution	
Strength of the IBM Coalition.....	17
County Offices.....	17
Employees.....	18
VII. Financial Evaluation	
Administrative Savings.....	20
Retaining Federal Funding.....	22
VIII. Risk Mitigation	
Welfare Delivery System.....	24
Well-Being of State Employees.....	25
A Better System for Taxpayers.....	25
Vendor Performance.....	25
IX. Why Indiana's Modernization Would be Different Than Other States' Efforts	
Lessons Learned from Other States.....	27
Indiana's Hybrid Model	28
X. Final Recommendation	

I. Introduction

The Review Committee's Task

On May 18, 2006, you appointed a committee of inter-agency executives to work with the Indiana Family and Social Services Administration (FSSA) and the Indiana Department of Administration (DOA) to help complete the review and negotiation process connected with the Request for Proposal 6-58 (RFP 6-58). *See Memoranda, Exhibit A.* The purpose of RFP 6-58 is to seek a partner to assist the State in modernizing the information intake and data collection procedures (Information Intake Process) and to assist the State in providing more timely and accurate eligibility determinations for public assistance programs under FSSA's Division of Family Resources (DFR) as a part of DFR's overall modernization. The members of that committee include the following individuals (or their designees):

Earl Goode (Chair)	Chief of Staff Governor's Office
Karl Browning	Chief Information Officer Indiana Office of Technology
Chuck Schalliol	Director Office of Management and Budget
Nate Feltman	Executive Vice President and General Counsel Indiana Economic Development Corporation
Debra Minott	Director State Personnel Department
Carrie Henderson	Commissioner Indiana Department of Administration

The "Review Committee" fulfilled the statutory obligations of the "Governmental Body" under IC 5-22-2-13 and IC 5-23 regarding RFP 6-58. You or your designee(s) will fulfill the roles and obligations of the "Board" under IC 5-23-2-3 for purposes of RFP 6-58.

You gave the Review Committee two principal tasks in connection with its statutory obligations:

- 1) You asked the Review Committee to report to you by June 2, 2006, "as to whether or not it is in the best interest of the State of Indiana to pursue a contract with an external vendor to modernize Indiana's eligibility determination process regarding Food Stamps, TANF, Medicaid and related public assistance services". As a part of that charge, you specifically asked the Review Committee to assess whether that path to modernization would help welfare recipients become economically self-sufficient. You stated: "Indiana's policy initiative aims to promote the development of policies and procedures that underscore the importance of work, accuracy, and caseload integrity across all areas of public assistance." *See Memoranda, Exhibit A.*

After you verbally extended the initial reporting deadline, the Review Committee gave you a status report on June 12, 2006. As a part of that status report, the Review

Committee concurred with FSSA's conclusions that continuing to administer the Information Intake Process as it has been administered was not an acceptable option. The Review Committee also indicated it was not ready yet to make a recommendation to you regarding a specific modernization solution. *See Memoranda, Exhibit A.*

2) You asked that if the Review Committee recommended pursuing "a contract with an external vendor," it work with FSSA, DOA, and the respondents to negotiate best and final offers (BAFOs) for RFP 6-58. At the end of that process, the Review Committee could recommend to you a course of action that it determines would be most advantageous to the State as demonstrated by:

- Meeting the goals of improved welfare policies and procedures,
- Satisfying the State's request that State employees who go to work for the selected vendor receive the same or better base salary and comparable benefits,
- Being in the best interests of Indiana's taxpayers, and
- Providing short-term and long-term economic benefits to the State.

See Memoranda, Exhibit A.

The purpose of this report is to recommend to you that, pursuant to IC 5-23-5-8, the State of Indiana enter into the Master Services Agreement regarding the Division of Family Resources' Modernization Project between the State of Indiana, acting on behalf of the Indiana Family and Social Services Administration, and the selected vendor, IBM and its Coalition of partners, commonly referred to as the "Hoosier Coalition for Self-Sufficiency" (referred to herein as the "IBM Coalition"). The terms and conditions upon which this recommendation is being made are included in the proposed contract between the State and IBM attached to this report as *Exhibit B*. This report shall also serve the purposes of IC 5-23-5-9 (4) and (6), as it is the recommendation to award this contract and an explanation of the reasons for that recommendation.

Summary of the Review Committee's recommendation

Through its due diligence and the fulfillment of its statutory obligations, the Review Committee makes this recommendation based on the following determinations:

Need for Change

Indiana must reform its Information Intake Process to improve service to the State's clients, enhance the working conditions for FSSA employees, and provide fiscal and operational accountability to Indiana taxpayers.

First, the current system is inadequate for helping our clients become economically self-sufficient. Recent figures from the U.S. Department of Health and Human Services (HHS) indicate that Indiana has had the worst record in the country over the last ten years in reducing the number of people dependent on the Temporary Assistance for Needy

Families (TANF) program,¹ despite Indiana's having been a national leader in welfare reform before 1996. In addition, the current system is inconvenient for our clients who need the benefits of State and Federal public assistance programs.²

Second, the current system buries our employees in paper and overburdens them with an increasing number of open case files.

Third, the system is not working for Indiana taxpayers. Indiana's error rates in determining eligibility for public assistance programs are unacceptably high,³ which lead to additional administrative and program expenses. The State will already spend nearly \$190 million on average per year over the next ten years administering the current ineffective, inefficient, and inconvenient Information Intake Process (for a 10 year total of \$1.95 billion). We must do better.

In short, given a credible alternative, the State should not continue to operate the present Information Intake Process.

Vendor Partnership

Having identified the goals of improving Indiana's abysmal record in welfare administration, providing more timely and accurate eligibility determinations, and enhancing services to clients, the Review Committee considered three possible methods of modernizing the Information Intake Process: (1) partnering with a consortium of companies led by Accenture Indiana LLC (Accenture), (2) modernizing internally, or (3) partnering with the IBM Coalition.

Accenture

Accenture initially responded to RFP 6-58 and engaged in preliminary discussions with FSSA and DOA. Yet, Accenture elected not to revise its RFP response to satisfy the State's final BAFO terms. As a result, the Review Committee set aside Accenture's bid offer. Specifically, Accenture's bid was deemed non-responsive to the State's BAFO requirements since it did not meet two of the most important criteria -- price and the willingness to offer jobs at the same or better salaries and comparable levels of benefits to those State employees who would transfer to the external vendor. The Review Committee was committed to ensuring that every State employee affected by the modernization either remained employed with the State or had a job offer with the selected Information Intake Process vendor (or one of its subcontractors). Accenture's proposal would not have given our State employees these necessary protections.

¹ U.S. Department of Health and Human Services.

² Linville, Erin, "Eligibility Modernization: The Need for Change," FSSA, August 18, 2006, attached hereto as *Exhibit C*.

³ *Id.*

Internal Modernization

The Review Committee then considered the two remaining viable alternatives -- modernizing internally or partnering with the IBM Coalition. Based on extensive discussions with FSSA about its reasons for issuing RFP 5-68, it was apparent to the Review Committee that an internal modernization effort would be less effective, cost significantly more, and take considerably more time than modernizing with an external vendor.

In addition, the Review Committee concluded that any effective modernization solution would require consistent and sustained leadership -- something FSSA has historically lacked. There have been twelve FSSA Secretaries from the time that the FSSA was created in 1991, to 2004. By partnering with an external vendor, the State would have access to consistent leadership to assist FSSA throughout the entire modernization process.

Finally, FSSA determined that its baseline cost for modernizing internally would be approximately \$2.1 billion over 10 years. This amount would exceed the cost of maintaining the status quo, which is estimated at \$1.96 billion over the same period. In contrast, accepting the bid submitted by the IBM Coalition will result in nearly \$340 million in administrative savings compared to the current costs of the process -- and nearly \$490 million less than if the State attempted to modernize internally. For a side-by-side financial comparison of the costs of internal modernization as compared to FSSA's current baseline and the solution offered by the IBM Coalition, see *Exhibit C*.

The IBM Coalition

Having determined that (1) modernizing the Information Intake Process internally was not an effective modernization model and (2) the IBM Coalition had satisfied the conditions in the State's BAFO request, especially with respect to price and protections accorded to our State employees, the Review Committee and FSSA entered into negotiations with that respondent. Based on the IBM Coalition's BAFO response and the information it provided to the Review Committee throughout the negotiations, it was clear that partnering with the IBM Coalition provided the best opportunity to achieve the State's desired goals in modernizing the Information Intake Process. The IBM Coalition not only met and exceeded the State's interest in protecting its employees, but also offered a modernization solution that will assist the State in significantly improving its poor record in reforming welfare and reducing errors in the Information Intake Process.

In addition, the IBM Coalition project managers who would head the modernization process bring decades of experience and success in human service public-private partnerships. See *IBM Coalition Senior Management Bios, Attached as Exhibit D*. The Senior Program Executive who would oversee the work performed by the IBM Coalition recently spearheaded a substantial reformation of California's child support system, enabling that state to avoid nearly \$200 million in federal penalties. Other executives in

the IBM Coalition who met with the Review Committee are seasoned professionals who would come to this project with abundant and relevant experience.

Some states have used external vendors to help upgrade components of social service delivery, but only two states have undertaken anything comparable to the scale of the modernization proposed here. Texas entered into a single contract, asking an Accenture-led consortium of vendors to assume responsibility for nearly every facet of public assistance eligibility determination. Florida, on the other hand, tried to modernize virtually all of its determination processes internally, relying on multiple external partners for much smaller and targeted roles. The IBM Coalition and the Review Committee used those experiences to develop a modernization process that it believes to be superior to the models used in those two states.

Summary of the Review Committee's Critical Revisions

To achieve an effective modernization -- by creating a process that is more responsive to clients, has far fewer errors, and comes with a relatively seamless and non-disruptive transition -- the Review Committee recommends adopting a hybrid approach. The modernization proposal described herein would rely significantly on a partnership with the IBM Coalition, but would also keep essential functions and personnel in-house. This approach entails, first, partnering with the IBM Coalition to administer only the Information Intake Process, and second, keeping all final eligibility determinations in the hands of qualified State employees. In this way, the proposed solution strikes a balance between relying almost exclusively on a single outside vendor consortium to bring about change, and modernizing internally with existing personnel and resources. This approach gives FSSA the expertise and technology that only an external vendor can provide, while maintaining FSSA responsibility for its core functions.

The Review Committee determined, after months of analysis and due diligence, that certain revisions to FSSA's original modernization proposal were necessary in order to reform the Information Intake Process successfully. Specifically, the Review Committee concluded that the State should:

- Retain the determination of eligibility for all public assistance programs and use an external partner only for technological support and process management in the Information Intake System.
- Maintain at least one office in each county. Doing so would allow clients to apply for benefits in person as they have always done. (In addition to an office in each county, other locations and modern technological intake points (i.e., the Internet) will be established by the IBM Coalition to accept information pertinent to benefit eligibility, thereby giving clients greater access to the system than they currently have.)
- Staff every county office with DFR employees, thereby increasing the number of DFR employees retained by the State to almost 700.

- Require that the vendor establish one more additional regional office than was originally proposed (bringing the total to 8) to maintain a high level of service throughout the State.
- Require preferential treatment of State employees transitioned to the IBM Coalition for future employment opportunities within its partnership network.
- Require performance metrics for the IBM Coalition during the transition period to ensure high quality customer service, in addition to the metrics to be applied following transition.
- Allocate nearly \$3 million annually for DFR to oversee contract compliance.

Protection of State Employees

Of all of the issues considered by the Review Committee, none was more important than protecting the State employees currently involved with the Information Intake Process who would transition to become employed by the IBM Coalition. The Review Committee went to great lengths to provide the following safeguards and future opportunities for transitioning employees:

- A job offer with a member of the IBM Coalition would be extended to every employee who does not stay with the State (subject to a successful completion of a background check and drug test). It is anticipated most offers would be for a place of work within 50 miles of the employee's current place of work.
- Any employee accepting a position farther than 50 miles from his or her current place of work and who relocates would receive \$2,000 in relocation assistance.
- Job offers would be for the same or better salaries and comparable benefits. In fact, the Review Committee required the IBM Coalition to offer transitioning State employees the option to receive the same health care package as the current most popular State health care plan (Anthem Trad II).
- Job offers would be for at least two years of guaranteed employment (subject to normal employment disciplinary procedures).
- Employees whose positions are eliminated after the two years of guaranteed employment will receive job offers within Indiana, so long as such job openings become available and the employees are deemed qualified. These offers will be available for an additional two years after the first two-year term of guaranteed employment.

The Review Committee believes that these protections will enable transitioning employees to maintain, or even improve, their families' lifestyles, their health, and their future career opportunities.

II. Approach of Review Committee

Review Committee Activities

The Review Committee met thirty times over the period of seven months. During its deliberations, the Review Committee met with FSSA management, external experts, and DFR county office personnel -- from district managers and front-line supervisors to caseworkers. The Review Committee made at least six separate trips to county welfare offices (this is addition to the nearly 60 offices FSSA visited during the entire RFP process). The Review Committee also had many telephone and in-person conversations with the IBM Coalition. Moreover, Review Committee members and supporting staff spoke with representatives of other states that have taken steps to modernize public assistance eligibility systems.

Information reviewed by the Review Committee

In the course of its work, the Review Committee reviewed information and materials from the following sources:

- The responses to RFP 6-58 and supporting information submitted by the respondents;
- Video tapes of the presentations (approximately five hours of total footage);
- Additional materials and information submitted by the IBM Coalition at the request of the Review Committee;
- Data relating to the State's record on welfare reform and public assistance determinations error rates;
- Information from FSSA regarding its history, current system of operation, and future plans;
- In-person interviews with FSSA field staff; and
- Information regarding the relevant efforts of other states, including conversations with state policy directors, consultants, and representatives of the other State Attorneys General offices, and examples of successful employee transitions from the public to the private sector.

The Committee also kept in contact with key state policy makers and sought the guidance of the Office of the Attorney General to ensure that the Agreement with the IBM Coalition would comply with Indiana state law and regulations.

III. Examination of Current DFR Operations

The Review Committee considered it essential to understand the challenges DFR faces in order to appreciate the need for RFP 6-58.

Brief description of FSSA

FSSA is the largest state agency in Indiana, operating approximately 170 public assistance programs. The agency spends about \$6.55 billion annually to serve over 1 million low-income individuals and families, senior citizens, people with mental illness, people with addictions, and people with physical or developmental disabilities. FSSA consists of five primary care divisions: Division of Family Resources (DFR), the Office of Medicaid Policy and Planning (OMPP), the Division of Aging, the Division of Disabilities and Rehabilitative Services (DDRS), and the Division of Mental Health and Addiction (DMHA). FSSA previously administered child welfare services as well, including child protective services, foster care, adoption and child support. But on January 11, 2005, you created the Department of Child Services (DCS) – a stand-alone agency focused on child welfare services – pursuant to Executive Order 5-15.

DFR: The Face of Public Assistance

Although DFR is only one of FSSA's five divisions, it houses many of the agency's most important functions. DFR is responsible for regulating child care, the Children's Health Insurance Program (CHIP), Head Start, First Steps, and Indiana Manpower and Comprehensive Training (IMPACT) job-training programs. Most importantly, DFR serves as the gateway for such public assistance programs as Food Stamps, Medicaid, and Temporary Aid for Needy Families (TANF). Hoosiers must currently apply for all of these programs through State caseworkers located in 107 DFR county offices. Clients are assigned to a single caseworker who is responsible for gathering the necessary information and filing the required paperwork using the current Information Intake Process. This system is incredibly inefficient and inconvenient, and is analogous to a bank requiring a customer to bank only in person, at a specific branch, and with a specific teller. It puts clients at the mercy of the caseworkers' schedules and existing caseloads.

As demonstrated in the report *Eligibility Modernization: The Need for Change*⁴, the current Information Intake Process is cumbersome, slow, inconvenient, and highly prone to errors. DFR's chronic problems include:

- *Dissatisfied Clients* — Clients who depend on FSSA for access to services, ranging from cash assistance to health care, are dissatisfied with the agency. Sixty-five percent of clients rated their satisfaction with the agency's service as "below

⁴ Linville, Erin, "Eligibility Modernization: The Need for Change," FSSA, August 18, 2006, attached hereto as *Exhibit C*.

average.” Over half complained that the eligibility system was “too slow.” Forty-eight percent found it difficult to reach their caseworker.⁵

- *High Error Rates* — Applications are currently processed in largely manual and very time-consuming ways, resulting in high error rates. For instance, the data entry process requires the caseworker to guide the client through twenty-seven screens in the Indiana Client Eligibility System (ICES) – even when many of these screens are irrelevant for the benefit the applicant seeks. As a result, 35 percent of approved Medicaid long-term care applications, 25 percent of TANF applications, and 12 percent of Food Stamps applications had errors that impacted how quickly the applications were processed and whether they were processed correctly.⁶
- *Ineffective Welfare Reform* — FSSA’s welfare programs are designed to help clients during difficult periods of time and enable them to become self-sufficient. But the State has fallen short of meeting this objective. Recent HHS figures demonstrate that Indiana has the worst record in the country in decreasing its welfare caseloads and, thus, moving people off of welfare and into work.⁷

In addition, new federal regulations require at least 50 percent of Indiana’s TANF recipients to be engaged in meaningful work-related activities (e.g. employment or an IMPACT-sponsored activity). However, Indiana’s work participation rate for one-parent families has historically hovered near a mere 33 percent.⁸ This shortcoming directly hurts those who are trying to gain economic self-sufficiency and puts the State at risk of incurring significant federal penalties.

- *Inappropriate Delays* — The State must determine eligibility within specific federal time guidelines. DFR continually violates these guidelines, placing Hoosiers who need services at risk. Due to caseworker time constraints flowing from the current Information Intake Process, FSSA estimates that action on 3,500 of the 31,000 Food Stamps applications and re-determinations filed monthly are delayed beyond the requisite timeframes.
- *Unmanageable Caseloads* — The DFR caseworker is the manager of today’s outdated eligibility determination process. Clients cannot receive or change welfare payments without speaking to their caseworker. Under the current model, caseworkers may carry up to 300 cases; however, some caseworkers, particularly in urban areas, carry as many as 700 cases at a given time.⁹ As a result, it is nearly impossible for caseworkers to gather, verify, and update client eligibility information while providing social assistance to their hundreds of clients.

⁵ FSSA Customer/Caseworker Service Satisfaction Baseline Assessment – The McCormick Group 12/22/05.

⁶ FSSA; See also, Linville, Erin, “Eligibility Modernization: The Need for Change,” FSSA, August 18, 2006, attached hereto as *Exhibit C*.

⁷ U.S. Department of Health and Human Services.

⁸ TANF Datawarehouse. DFR Office of Management. Reports from 2000-2006.

⁹ Indiana Client Eligibility System (ICES) extract report from Cognos. Caseloads. June 2006.

- *Inconsistent Application of Rules, Regulations and Policy* — The decentralized county office system and lack of appropriate communication between FSSA's central office in Indianapolis and county offices have led to an inconsistent, even non-existent, application of some rules, regulations and policy. A recent State Board of Accounts audit indicated that many policies and procedures are interpreted and implemented inconsistently at county offices across the State.¹⁰ This system renders centralized regulation of county office practices impossible and is confusing for clients, especially for those who must switch offices.
- *Fraud* — The current system is conducive to fraud. Effective checks and balances are difficult to apply and easy to circumvent. Since October 2002, at least fifteen FSSA caseworkers have been indicted for illicitly obtaining Food Stamp and TANF benefits. The amount stolen per case approximates \$50,000. Also since 2002, at least twenty-one "outside conspirators" have illegally obtained benefits or committed contract fraud with the assistance of FSSA employees. Each such case costs the State and the taxpayers about \$60,000.¹¹

IV. Examination of Modernization with External vs. Internal Resources

FSSA Services

FSSA is primarily a health-care financing organization that contracts with outside vendors to provide the bulk of its services to individual clients. Senior FSSA management spent significant time briefing the Review Committee about FSSA's record of partnering with vendors to help deliver services that are not necessarily within the agency's core functions. The Review Committee learned that despite FSSA's size, the agency often does not have the internal expertise necessary to provide such services as medical care, payment integrity, contract management, and ICES system support. As a result, FSSA spends approximately 92 percent of its budget buying services, on behalf of its clients, through 3,000 external providers. Only about \$500 million of its \$6.55 billion budget is spent in-house. The Review Committee concurs with FSSA that seeking external partners for these programs has proven to be the most effective method of serving clients.

Should the State contract with the IBM Coalition, the portion of FSSA's budget devoted to contracted services would increase a mere 2 percent, or \$130 million annually out of a total budget of \$6.5 billion. Given FSSA's long history of relying on external vendors in multiple areas of operation, this contract would continue an accepted and proven FSSA practice of working with external partners to deliver important and sensitive services to clients.

¹⁰ State Board of Accounts Audit, TANF Special Audit Project, March 22, 2006. "...it appears evident that whatever control procedures have been established by the central office are not widely implemented at all local offices. Rather, controls in place seem to be determined by each local director and vary widely."

¹¹ FSSA Internal Investigations. FSSA Compliance Division. Report submitted to DFR (Fall 2005).

Barriers to DFR Internal Modernization

A key question in the Review Committee's deliberations was whether activities in the Information Intake Process – applicant processing, collecting data, document imaging, and maintaining client information – would be best modernized internally through FSSA or by partnering with an external contractor. Accordingly, as a part of its due diligence process, the Review Committee assessed FSSA's proficiencies and capabilities, both current and potential, to determine whether internal modernization was possible and desirable.

The Review Committee ascertained that FSSA's primary responsibilities are threefold: (1) to serve as a health care financing organization, (2) to develop health care policy for the State, and (3) to serve as a gateway for State-funded public assistance programs.

The third of these primary responsibilities rests in the hands of DFR caseworkers. Instead of being able to focus on public assistance, however, caseworkers are inundated with activities that are merely peripheral to making final eligibility determinations. Considerable time and effort is devoted to processing data, filing papers, photocopying, and other miscellaneous activities that detract from the ability of caseworkers to concentrate on making timely and accurate eligibility determinations – particularly given the enormous caseloads handled by DFR employees. Modernizing internally would not relieve DFR caseworkers of these time-consuming supplemental tasks.

Furthermore, the Review Committee determined that FSSA and the State lack the internal expertise necessary to develop, implement, and maintain a successful, modernized Information Intake Process. The financial, technological and managerial resources necessary to make internal modernization successful would likely drain those same resources from the other programs FSSA administers.

Finally, Florida's well publicized and flawed attempt at modernizing its social services system in-house demonstrated to the Review Committee that trying to modernize the Information Intake Process internally would take too long, would cost the State more, and would likely achieve only modest results.

Thus, the Review Committee recommends that the State choose an external partner to modernize the Information Intake Process.

V. Addressing the Problems: the Advantages of Modernization

Better Client Service

Today, FSSA clients and beneficiaries have only one way to apply for public assistance – by visiting their local county office in-person during standard government hours, usually Monday through Friday between 8:00 a.m. and 4:30 p.m. This single point of entry during restrictive hours does not often fit the schedules of FSSA's clients, who frequently have to make special arrangements for transportation and child care in order to visit a county office and apply for benefits. Once a client has made these arrangements, they often face long lines, a lengthy application process, and the need to make multiple trips to complete the interview process because they may not have known what documentation they needed to bring with them. Moreover, once an application is complete, a client file can be hard to access for follow-up or renewal questions since many records are maintained in hard copy, cluttering DFR offices and rendering sensitive and important client information unsecured and hard to find quickly.

Partnering with the IBM Coalition would address many of the inconveniences of the current system. Clients would have increased access to the system through multiple channels, resulting in 24-hour access to the system every day of the week. Not only would clients be able to apply for services in-person in an office in every county, but they would also be able to get access to the system via the telephone and Internet.

Rather than be assigned to a single caseworker, clients would be able to contact and work with a variety of people in multiple settings. According to a recent survey conducted by Indiana University-Purdue University at Indianapolis (IUPUI), 74 percent of FSSA clients said they would be likely to use an extended-hour toll-free service to apply for benefits.¹² The study also found that 40 percent of clients would be likely to use the Internet to apply for benefits and that 26 percent of clients have home access to the Internet.¹³

The IBM Coalition would establish an extensive, modern, and user-friendly network that would give clients many more opportunities to apply for benefits, interact with employees, ask questions, and submit information. If they choose, clients may continue visiting an office in their county. Clients may also use the automated phone system or the Internet to check on the status of an application or on supporting documents which may need to be submitted (e.g., rent receipts or pay stubs). They may mail in needed documents rather than having to re-visit the county office, as is now customary. In addition, clients may contact a call center staffed with State and IBM Coalition employees that would be open at least five days a week, from 7:00 a.m. to 7:00 p.m.

¹² Survey of Indiana Residents Receiving Benefits – Survey Research Center at IUPUI, Jan 2006. Pg. 11.

¹³ Id, at 11-12.

In short, the proposed solution would permit clients to apply for services and keep their applications up-to-date through a combination of current and new avenues that are designed for their convenience.

Reduced Process and Eligibility Determination Errors

The high error rates cited for Medicaid long-term care (35 percent), TANF (25 percent), and Food Stamps (12 percent) indicate that FSSA fails to ensure that eligible persons receive appropriate services and fails to prevent waste and fraud. One of the main reasons for this shortcoming is that there is little consistency in the way DFR county offices process applications and make eligibility determinations. The IBM Coalition solution would provide standardization as well as checks and balances to guard against error. For instance, the new system would interface with other sources of personal information (e.g., other governmental agencies) to verify changes in status.

In addition, the IBM Coalition would introduce specialization so that caseworkers would develop expertise in processing complex applications (as in the case of nursing home care). This specialization is expected to reduce errors and provide faster and more reliable service to FSSA's clients. Moreover, eligibility determinations under the proposed solution would be streamlined and faster. The job of an eligibility worker would be enhanced by a centralized, statewide electronic filing system that would serve as a wrap-around system for ICES. (ICES is DFR's current system for maintaining client records within single offices). This wrap-around system would yield three key advantages over the current set-up: (1) all information needed for eligibility determinations would be maintained and updated in a central location; (2) eligibility determinations would uniformly adhere to an established set of rules, regulations and policies; and (3) eligibility determinations made by state employees would be easier to monitor. These improvements would create a system that saves time, improves accuracy, and ensures consistency.

Improved Welfare-to-Work Record

The federal TANF program was designed to give temporary relief to families needing government assistance. The TANF block grant is spent in many ways, from cash assistance and child care vouchers, to IMPACT work-related activity, to *Mitch's Kids*, a pilot program you initiated that is operated through local Boys & Girls Clubs to provide education, youth development, and career exploration services to TANF-eligible children.

By federal law, cash assistance is available for a maximum of 60 months (5 years), determined consecutively or intermittently. Although children are eligible for 60 months, Indiana allows only a 24-month eligibility period for the caretaker of a child (e.g., a parent). States are required to engage 50 percent of their employable one-parent family TANF recipients (90 percent for two-parent families) in a job or job-related activity or suffer federal penalties. Indiana typically has a workforce participation rate of only 33

percent,¹⁴ in part because of the time and attention Indiana caseworkers must devote to growing caseloads and public assistance applications.

While FSSA has begun to address the “backlog” of TANF recipients who do not satisfy the work participation requirements, a more comprehensive approach is needed. Under the current process, clients receive cash assistance first. Then, if caseworkers are able to make time for additional appointments, clients must make return trips in order to receive assistance finding employment. The IBM Coalition solution would integrate job placement with cash assistance. FSSA would reach the required work participation rates because it would be able to devote resources to family case coordinators and others who would work directly with the clients. In addition, the IBM Coalition would be incentivized to assist the State in meeting the federal guidelines. The proposed contract requires the IBM Coalition to pay up to 50 percent of the federal penalties (subject to annual and aggregate caps) imposed on the State for failing to meet TANF work participation rates and federal Food Stamp targets.

Too often, FSSA caseworkers are bogged down in paperwork. Because the new system would be highly automated—reducing paperwork and data entry—less time will be spent on processing paper and more time will be spent helping TANF recipients develop self-sufficiency plans. The Review Committee believes that this approach will substantially enhance (1) the experience of the case workers and the clients alike and (2) the ability of the State to meet or exceed TANF work participation requirements.

Reduced Delays

Efficiencies to be gained from the new proposed solution include moving away from paper-based records to electronic imaging and processing, thus saving time and creating a more reliable record. Under the proposed solution, FSSA will no longer average 3,500 overdue or delayed Food Stamps applications and recertifications for the 31,000 filed each month.

Currently, a client who enters a county office to apply for Food Stamps simply provides their name and other standard information to a clerical staff member. Once this initial information is submitted, the county office has 30 days to process the application and make a final eligibility determination. If the county office is unable to interview the client for two weeks for the purpose of getting more detailed information, half of the time available to the office for making that final determination is already expended. Even if the interview is timely, the client often has to make a return trip to provide supporting documentation that they may not initially know was required.

In conjunction with the increased ease of submitting information, the service level agreements established in the contract ensure that the IBM Coalition will meet established performance standards in processing applications for such programs as Medicaid, Food Stamps, and TANF. These safeguards are in addition to the penalties the IBM Coalition

¹⁴ TANF Datawarehouse. DFR Office of Management. Reports from 2000-2006.

has agreed to share if Indiana does not meet the federal requirements on TANF work participation rates.

Fraud Mitigation

The proposed eligibility system would lessen fraud and abuse by limiting the opportunities a client has to collude with a caseworker because caseworkers would no longer control cases from opening to close.

Also, the proposed process would be able to access additional resources to cross-check and verify information provided by clients, making it much harder for them to obtain benefits illegally. For example, it is too easy for recipients of Medicaid long-term care to hide their assets in order to qualify for services. DFR is unequipped to deal most of these instances. Under the IBM Coalition solution, qualified staff would be available to review long-term care applications, cross-checking with other data sources, to ensure that eligible clients – and only eligible clients – qualify for and receive assistance.

VI. Impact of the IBM Coalition Solution

Strength of the IBM Coalition

The leadership team that the IBM Coalition brings to this proposed solution has considerable experience and significant successes with public-private partnership agreements. As an example, IBM recently transformed the California child support system and helped the State of California avoid nearly \$200 million in federal compliance penalties. A member of the management team on that California project would be the senior project manager on our modernization effort. The Review Committee met with that individual, as well as the entire project management team from the IBM Coalition, several times through the negotiations and is confident in the IBM Coalition's ability to implement the proposed modernization.

County Offices

In accordance with one of the modifications requested by the Review Committee, each of Indiana's 92 counties would retain an office with at least one DFR employee working alongside IBM Coalition employees. The DFR employees, called State Eligibility Consultants, would be responsible for final eligibility determinations and would aid their IBM Coalition counterparts in assisting clients. This modification would accommodate clients who prefer face-to-face interactions with State personnel at familiar county offices.

Employees

As noted earlier, the IBM Coalition proposal satisfied the State's request with respect to the treatment of FSSA employees who would be employed by the external vendor. This aspect of the proposed contract was central to the Review Committee's work and was examined in great detail.

Employees Remaining with DFR

Approximately 682 of the 2,200 or so DFR employees that currently work in the Information Intake Process would stay with DFR, but their roles within the agency would change. Most of these employees would become State Eligibility Consultants in DFR county offices. State Eligibility Consultants would work with clients who prefer face-to-face meetings, but their primary role would be making final determinations of client eligibility for public assistance.

Thirty-eight of the retained DFR employees would be named State Eligibility Managers. They would supervise the State Eligibility Consultants in several DFR county offices and would travel among them to ensure service quality. State Eligibility Managers would also perform spot checks on eligibility determinations performed by State Eligibility Consultants to ensure their accuracy.

The Review Committee concludes that retaining 682 employees (serving as State Eligibility Consultants, State Eligibility Consultants, and Regional Managers) and transitioning approximately 1,575 employees to the IBM Coalition would create an optimal balance between the Information Intake Process and final eligibility determination, ensuring both accountability and stability.

Employees Transitioning to the IBM Coalition

The IBM Coalition has contractually agreed to provide the following to State employees transitioning to the new employer:

- Job Security — Every State employee not remaining with the State would be offered employment by the IBM Coalition for a guaranteed period of two years (subject to a successful completion of a background check and drug test). Therefore during the two-year period following transfer of employment, these employees would not be subject to layoff or involuntary transfer (to any other coalition partner). They would, however, be subject to the employer's normal and customary disciplinary policies.
- Salary — State employees transitioned to the IBM Coalition would receive salaries equal to or better than those they received as DFR employees.

- Insurance — Health, dental, vision and life insurance offerings would be provided on a comparable basis. (In fact, the Review Committee made sure that transitioned employees would have the option of continuing with most popular State employee health plan, Anthem Trad II.) Supplemental payments (for health, dental, and vision) by the new employer would ensure that employees' 2007 premiums are no higher, in the aggregate, than when they left State employment.
- Retirement and Benefits — The new employer would make significant annual contributions (between 6 and 13 percent, depending on an employee's years of service and age at time of contribution) to the employee's 401(k) retirement plan (with immediate vesting) and a discount for stock purchases. A third-party review by Aon Consulting has concluded that the economic value of the new fringe benefit package is substantially similar to State employee fringe benefits.
- Career Advancement — As a part of their new position with the IBM Coalition, employees will have new and extensive training and professional development opportunities. Each employee transitioned to the IBM Coalition would be able to access and apply for internal job postings and other opportunities with their new employer. In addition, any transitioned employee whose position is eliminated at the end of the two-year protected period and up to two years afterwards, if qualified for the position, would be offered an available job opportunity in Indiana.
- Vacation — Although vacation allowances for other Coalition employees are not nearly as generous, the IBM Coalition has agreed to honor State employees' current level of accrual for paid time off. Employees would not be allowed to transfer vacation days already accrued, but would be compensated by the State for up to 225 hours of unused vacation upon separation. Employees who are eligible to retire from the State may also qualify for additional benefits under the State's Retiree Flexible Spending Program. While IBM Coalition employees observe fewer holidays, transitioned employees will be given four additional company-designated floating holidays.
- Relocation Aid — Any employee accepting a position farther than 50 miles from his or her current place of work and who relocates would receive \$2,000 in relocation assistance.

VII. Financial Evaluation

Administrative Savings

IBM Coalition's Initial BAFO Response

The initial BAFO submitted by the IBM Coalition described savings of \$319 million to the State over the next ten years. FSSA's financial analysis of this proposal concluded the following:

(\$'s in millions)

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	Total
FSSA Baseline	\$151.7	\$154.7	\$158.6	\$162.7	\$166.9	\$171.3	\$175.8	\$180.4	\$185.1	\$190.1	\$195.1	\$1,892.4
IBM Estimate		\$154.7	\$142.4	\$143.0	\$143.7	\$144.3	\$142.0	\$142.8	\$137.8	\$136.2	\$134.8	\$1,573.4
Savings		\$0.0	\$16.3	\$19.7	\$23.3	\$26.9	\$33.7	\$37.6	\$47.3	\$53.9	\$60.4	\$319.0

This estimate, as well as many of the pricing assumptions, has changed since that time. As a result of the Review Committee's negotiations and The Indiana Office of Management and Budget's (OMB) involvement in price modeling, the assessment of the FSSA baseline, FSSA's retained costs, and the IBM Coalition's costs have changed.

Revised BAFO

OMB calculates the FSSA baseline differently than it appeared in the BAFO. OMB believes that the assumption of a 4.5 percent annual increase in health care premiums paid by employers is very low. Nationally, these premiums increased an average of 11.4 percent annually from 2000 through 2004¹. The State has increased its premium payments by 10 percent for 2006. OMB therefore adjusted the model used to develop FSSA's baseline using a 10 percent annual increase for employer paid health care premiums. In addition, FSSA's baseline showed a flat cost for leases over the next 10 years. But according to the DOA,² the average annual increase for state-held leases is between 1 and 4 percent, depending on area market trends. Most landlords use the Consumer Price Index (CPI) as a basis for their increases. The average CPI increase over the past ten years has been 2.59 percent. OMB thus adjusted the baseline to account for these increases, given the large number of county leases. Finally, the BAFO request double-counted FSSA's IMPACT program in the baseline, so that amount has been removed from the analysis.

FSSA's retained costs -- that is, those costs that FSSA will continue to bear after the contract has been implemented -- have been used to determine the savings associated with the IBM Coalition contracting opportunity. These retained costs have also changed substantially since the BAFO. OMB incorporated the Review Committee's plan to retain 682 county employees as opposed to the 350 that were contained in the BAFO price. Lease costs were also added so that the state could maintain an office in every county. In order to account for vacation payouts that will occur when existing state employees move

to employment with the IBM Coalition, an additional \$2.8 million was added to the FY07 retained costs. Also, at the request of the Review Committee, OMB added \$3 million annually in retained costs to account for the large administrative task of managing the contract with the IBM Coalition.

The IBM Coalition adjusted their price as well. In order to accommodate the State employees who will move to the IBM Coalition, the IBM Coalition's new pricing reflects the increased cost of maintaining the same health insurance package and the 37.5 hour work week required of State employees now. The IBM Coalition also adjusted their price to include supervisors for the additional 55 county offices that were added after the BAFO. In addition, the staff retained by the State allowed the IBM Coalition to reduce their price.

The following table reflects the final price (fixed fee) for RFP 6-58:

(\$'s in millions)

	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	Total
FSSA Baseline	\$151.0	\$157.3	\$164.0	\$171.3	\$179.0	\$187.3	\$196.3	\$205.9	\$216.3	\$227.5	\$99.8	\$1,995.7
IBM Solution	\$159.3	\$163.8	\$159.9	\$167.4	\$161.7	\$154.1	\$151.8	\$146.5	\$144.0	\$144.3	\$61.3	\$1,614.1
Savings	\$(8.3)	\$(6.5)	\$4.1	\$3.8	\$17.3	\$33.3	\$44.5	\$59.5	\$72.3	\$83.2	\$38.5	\$341.6

OMB projects nearly \$341.6 million in administrative savings over ten years, which is \$22.6 million more than what was estimated in the BAFO.

Cost of FSSA Internal Modernization

The Review Committee asked FSSA to explain their estimated cost for modernizing internally so we could compare it to what it would cost the State to implement a modernization solution with the IBM Coalition. In order to create this estimate, FSSA researched what the costs would be for all of the internal steps that would be necessary to achieve a successful modernization. FSSA determined that these significant steps would include, among other things: maintaining local office presence at the current staffing and expense levels while building, in parallel, enhanced functions; re-engineered workflows to support consolidated call centers (providing both inbound and outbound calling); establishing and maintaining a document center for case file imaging; and a either creating or purchasing an enhanced computer system to support both existing and new backroom functions for the eligibility offices. In addition, the financial case assumed a 10% annual labor savings though productivity gains.

(\$'s in millions)

	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	Total
FSSA internal Modernization	\$189.1	\$201.0	\$187.1	\$191.1	\$194.6	\$194.3	\$200.5	\$207.1	\$214.0	\$216.4	\$109.7	\$2,104.9
IBM Solution	\$159.3	\$163.8	\$159.9	\$167.4	\$161.7	\$154.1	\$151.8	\$146.5	\$144.0	\$144.3	\$61.3	\$1,614.1
Savings	\$29.8	\$37.2	\$27.2	\$23.7	\$32.9	\$40.2	\$48.7	\$60.6	\$70.0	\$72.1	\$48.4	\$490.8

FSSA estimates nearly \$490 million in administrative savings over ten years by choosing the IBM Coalition solution as opposed to attempting to modernize internally. For a graph

comparing: (1) FSSA's current baseline, (2) the IBM Coalition solution, and (3) modernizing internally, see the graph attached as *Exhibit E*.

Retaining Federal Funding

Struggles to Meet Federal Requirements

In order to receive federal funding for crucial programs, FSSA must abide by federal government rules, regulations, and policies. Yet FSSA often fails to satisfy the requirements of two of the federal programs it administers: Temporary Aid for Needy Families (TANF) and Food Stamps.

TANF

TANF provides cash assistance and work opportunities to families in need. Under federal guidelines, TANF work participation rules require 50 percent of all families and 90 percent of two-parent families to be involved in a job or some other work-related activity (e.g., as a volunteer in the IMPACT program). Certain categories of people (e.g., non-parent caretakers) are exempt from this calculation.

As of September 2006, Indiana's work participation rate for all families was 26.7 percent (although FSSA estimates that the year-end total will be closer to 33 percent), with two-parent families at approximately 30 percent, rather than the required 90 percent. Indiana has historically met the all-family 50 percent participation rate requirement only because it was granted a federal caseload reduction credit of 20 percent (which is subtracted from the 50 percent requirement so that our net required participation rate was 30 percent).

New federal regulations, however, took effect in October 2006. These regulations reduced the caseload reduction credit from 20 percent to between three and four percent, which would result in approximately a 10 percent negative gap between the new requirement and FSSA's historical performance. The gap for two-parent families would approximate 60 percent. Clearly Indiana is highly vulnerable under both criteria. The penalty for failing to meet the federal work participation rate requirement is 5 percent of the TANF Block Grant. In Indiana, the penalty would amount to a loss of approximately \$10.3 million federal dollars in FY08. If the State fails to meet these requirements in subsequent years, 2 percent would be added to the penalty. If these losses were not then covered by State funds, the State would incur a penalty twice this amount the following year for failing to meet TANF Maintenance of Effort (MOE) requirements (a dollar for dollar penalty).

(\$'s in millions)

	FY07	FY08	FY09	Δ from 07 to 09
Federal TANF Block Grant	\$206.8	\$206.8	\$206.8	
<i>Work participation penalty</i>		\$(10.3)	\$(14.5)	
<i>MOE penalty</i>			\$(10.3)	
<i>SUBTOTAL FEDERAL FUNDS</i>	<i>\$206.8</i>	<i>\$196.5</i>	<i>\$182.0</i>	<i>(24.8)</i>
State spending	\$121.1	\$121.1	\$121.1	
<i>Additional state fund needed</i>		\$10.3	\$24.8	
<i>SUBTOTAL STATE FUNDS</i>	<i>\$121.1</i>	<i>\$131.4</i>	<i>\$145.9</i>	<i>24.8</i>
TOTAL REQUIRED SPENDING	\$327.9	\$327.9	\$327.9	0

- This scenario assumes that Indiana does not meet work participation rates in FY07 and FY08 AND that Indiana does not spend an additional \$10M (cost of penalty) of state funds in FY08.

Food Stamps

Indiana's payment error rates have failed to meet federal tolerance levels in three out of the last four years. In the past ten years, Indiana's case error rates have always exceeded 10 percent and at times were as high as 36.33 percent. This poor performance continues to put the State at considerable financial risk. If Indiana, for two consecutive years, has a 95 percent probability that its state payment error rate exceeds 105 percent of the national average, the State will face financial penalties. The penalties are calculated by multiplying the state payment error rate by the cost of the errors that exceed 6.0 percent.

In FFY86-91, the State of Indiana incurred penalties of \$10.8 million but negotiated the sanctions down to about 15 percent of the penalty. For FFY92-95, the State of Indiana incurred penalties of \$54.4 million but negotiated the sanctions down to \$14.4 million, with \$12 million being waived if the State reinvested money in increasing payment accuracy and achieved the national levels for FFY97-00. The State achieved the targets until FFY02, at which time the small sanction was waived after the State was required to develop a corrective action plan. Beginning in FY03, the federal government implemented a new liability system for the Food Stamp program that imposes sanctions whenever a state fails to achieve required targets for two years in a row. While Indiana significantly missed the national average in FFY03, it met the national average in FFY04 and avoided a penalty.

The FFY05 national payment error rate average was 5.84 percent. Indiana failed to perform at or below that average, but avoided liability because its FFY05 payment error rate of 6.58 percent was less than the 95 percent probability of exceeding 105 percent of the national average. FFY06 payment error rates are not yet validated nationally, but State projections indicate that Indiana will once again exceed the national average and is at risk of incurring liability.

IBM Coalition Assistance

The IBM Coalition has contractually agreed to help the State comply with these critical federal guidelines. If the State of Indiana fails to meet certain federal program targets during the contract period, the IBM Coalition will pay the State up to 50 percent of any

federal penalties or federal reimbursement set-offs (subject to annual and aggregate limitations), including those penalties the State may face if it does not meet federal (all-family) TANF work participation requirements.

Savings through Supervision

As already noted, FSSA has high error rates in program administration (particularly as to Medicaid long-term care and TANF). A recent internal audit revealed a 35 percent error rate in Medicaid long-term care determinations, which cost the State between \$10 million and \$50 million annually. The same audit demonstrated that eligibility for TANF is determined incorrectly 25.8 percent of the time. Many of the errors in making final eligibility determinations result from mistakes that occur during the Information Intake Process. If the information regarding an individual's benefit application is incomplete, improperly gathered and stored, or even lost, the final determination regarding the individual's eligibility will likely be incorrect. The improved accuracy expected under the IBM Coalition solution would help ensure that services are directed only to those who are eligible to receive them.

The IBM Coalition solution includes a two-pronged approach to dealing with these issues: (a) it would ensure more accurate eligibility determinations, and (b) it would establish a means of legally recovering assets for improperly received benefits. The IBM Coalition would contract with businesses to verify the assets and employment status of people applying for services.

VIII. Risk Mitigation

The Review Committee considered in depth the risks associated with contracting with the IBM Coalition for these services and concluded that such risks are manageable and mitigated by adequate contractual controls.

The Review Committee recognized four main categories of risk:

- Failure to improve the welfare delivery system adequately;
- Failure to maintain the well-being of State employees;
- Failure to save money for taxpayers; and
- Failure by any vendor to perform timely or up to expectations.

Welfare Delivery System

The Review Committee, after weighing the possible penalties for not improving the State's record on welfare reform and not achieving the goals of a modernized system against the possible mistakes associated with implementing the IBM Coalition solution, concluded that the risks of maintaining the status quo vastly exceed those involved in proceeding with the

proposed modernization. The risks of the IBM Coalition solution will be significantly mitigated through the following safeguards:

- *Managed Implementation* — The IBM Coalition will roll out the modernization through successive regional pilot programs. A key aspect of the proposed solution is the emphasis on communications with stakeholders, particularly with current FSSA employees, to ensure a smooth transition. Any changes to the plan will be addressed through a rigorous change-management process.
- *The IBM Team* — The members of the IBM Coalition leadership team come with extensive, relevant experience and a track record of success.
- *Service Level Agreements* — The contract has multiple performance requirements, with substantial penalties for non-compliance.
- *Shared Penalties* — The IBM Coalition would share federal penalties imposed on the State for non-compliance with federal welfare-to-work participation and determination error rate requirements.

In short, the Review Committee assesses the risk that the proposed modernization plan would not improve the welfare delivery system to be manageable.

Well-Being of State Employees

The Review Committee sought to ensure the equitable treatment of State employees who would transition to the IBM Coalition. The IBM Coalition solution not only protects State employees, but also offers them significant opportunities for advancement and career options. Additionally, an outside benefits consultant, Aon Consulting, compared the benefit packages of the State with those offered to employees who would transition to the IBM Coalition. The consultant concluded that they were substantially similar. Finally, employee protection terms are contractually ensured. If it does not meet its obligations, the IBM Coalition can potentially be held in breach of contract and be liable for associated damages.

These factors lead the Review Committee to conclude that the risk of failing to protect State employees is low.

A Better System for Taxpayers

Adopting the IBM Coalition Solution would not only increase the level of service provided to FSSA's clients, but it would also save taxpayers money over other options. As stated previously, the status quo is not acceptable. The current system is more costly than the IBM Coalition solution would be, and the current system can be counted on only to continue to provide poor service to our clients and incur further federal penalties.

Modernizing internally, while addressing FSSA's manifold shortcomings, would cost taxpayers more, take longer, and be less effective than the solution proposed by the IBM Coalition.

The State is further protected from typical cost increases by the contractual definition of the scope of work. The IBM Coalition would be contractually obligated to perform all services related to eligibility, except those specifically retained by the State. Crafting the scope of work in this fashion clarifies lines of responsibility and protects the State from assertions that certain work is not within the scope of contract because it is not identified as such.

The Review Committee believes that this built-in principle would mitigate as strongly as possible the risks associated with cost of services. Hence, the Review Committee believes there is low risk of rising costs.

Vendor Performance

After lengthy discussion and analysis, the Review Committee concluded that the risks of systems failures reducing services for FSSA customers were low-to-manageable for the following reasons:

- *Financial Penalties* -- Financial penalties for failing to meet service level agreements and project milestones are sufficiently material to create strong incentives for the IBM Coalition to fulfill the terms of the contract.
- *Pilot Roll-Out and State Control* -- The implementation strategy is structured to minimize service disruption. Implementation would be phased across the State, allowing corrections to take place in pilots on a regional basis before the IBM Coalition assumes statewide responsibility. Moreover, the ICES "system of record," which contains all of the critical client information, would remain under a separate management contract with a vendor independent of the IBM Coalition. Finally, and most importantly, DFR would retain complete control of final eligibility determination.
- *Comprehensive Contract Management* -- As a part of the State's retained costs, FSSA has allocated nearly \$3 million from its annual budget for managing this contract to ensure that the IBM Coalition is fulfilling its contractual obligations. Given the importance of this contract to the State and its most vulnerable citizens, the Review Committee believes it essential that FSSA dedicate significantly more funds for contract management here than are being applied to any other State contract.

IX. Why Indiana's Modernization Would be Different than Other States' Efforts

Lessons Learned from Other States

The Review Committee examined the record of other states that took measures similar to those proposed here to improve public assistance programs. Those experiences served both as cautionary examples of what not to do as well as positive examples to follow. The Review Committee paid particular attention to the modernizations that were attempted in Texas and Florida, reviewing documents and interviewing government officials and consultants who had first-hand experience with these efforts. The experiences of these other states helped the Review Committee assess the proposal from the IBM Coalition and encouraged the Review Committee to modify the proposal in select, but important, ways.

Texas

Texas tried to revamp its entire public assistance eligibility process by hiring an Accenture-led coalition to modernize its information intake process *and* create a new eligibility determination computer system. Simultaneously, Texas made major changes to its policies on eligibility for public assistance. Texas overhauled its public assistance system to such an extent that dislocations and confusion were almost inevitable. The massive modifications made all at once virtually assured lack of coordination. Moreover, Texas did not require Accenture to hire state employees familiar with the previous system. The result was that the Texas was forced to make significant layoffs as the vendor hired workers who had had no prior experience in the provision of public assistance, exacerbating an already precarious situation. The Texas experience demonstrated to the Review Committee the dangers of trying to do too much too quickly.

The major, well-publicized failings in Texas include these:

- The Texas approach created multiple technical shortcomings and staffing difficulties that resulted in significant delays.
- Case backlogs have tied up call centers, which cannot respond to applications expediently.
- In light of these deficiencies, some client service responsibilities have reverted to the state, causing it to rehire about 1,000 former employees (in some cases having to offer bonuses to entice experienced employees to return).
- The governance structure is weak, and subcontractors are not well managed.
- The operating problems have put Accenture far behind its statewide rollout schedule. The system still suffers from inadequate communication and coordination.
- The extent of the problems caused the Texas General Assembly to vote for an audit of its contract with Accenture.

The IBM Coalition solution is much smaller in scope and is well-protected against the type of problems encountered in Texas. The ICES computer system will stay in place,

and the eligibility policies will remain as they were. DFR will continue to determine final eligibility. And most importantly, DFR employees who transition to the IBM Coalition will bring with them abundant experience about the delivery of social services and institutional knowledge relevant to Indiana. Each of these factors bodes well for a smooth transition and a relatively seamless continued operation.

Florida

In 2002, Florida opted to modernize its information intake process using internal resources only. Ironically, this decision came when a two-year-old regional pilot program, which used an external vendor, was showing promise. Florida used the experience of the pilot program to begin its own modifications.

Rather than modernizing its entire public assistance program, Florida chose to revise only its eligibility determination process.¹⁵ The seemingly small scope of this project convinced Florida that it could successfully modernize without using an external vendor.

The Florida experience reveals two major downsides to internal modernization. The most obvious is the sheer length of time it took to achieve a measurable difference. The extensive resources available through a qualified and experienced vendor permit modernization to roll out in months. Florida's internal modernization is projected to take up to a decade. Second, states lack the expertise in technology and process development that a vendor can provide.

Florida's experience did, however, demonstrate a positive feature that is part of the IBM Coalition's model: the Internet is an effective means of communicating with clients. This feature highlights the choices that clients will have under the new system that they do not have now and how the IBM Coalition solution was created with the needs of the client in mind.

Indiana's Hybrid Model

Indiana's hybrid approach recognizes the risks both of trying to do too much too quickly and of implementing a model so slowly that improvements are glacial and take years to achieve. Indiana cannot afford to wait. Every day the State wastes money in improper payments and demands client time for in-person meetings that are inconvenient and unnecessary. The IBM Coalition solution calls for a thoughtful roll-out through pilot programs so that any deficiencies can be identified and rectified early on. The Review Committee believes that the contract with the IBM Coalition will achieve positive short-term results while avoiding the draconian overhaul that has clouded the effort in Texas. As much as possible, the Review Committee believes the approach described here approaches the "golden mean".

¹⁵ Florida did include a few minor technological changes, but none effective enough to cause any complications.

Under the IBM Coalition proposal, there is a clear plan of action to change the current defective system while making sure that the FSSA keeps enough elements as they are now – the county offices, the determination of eligibility, key personnel, ICES – to limit discoordination, unanticipated costs, and diminished customer service. The Indiana hybrid approach combines the best of what the Review Committee has found elsewhere with contractual safeguards and an IBM Coalition team that is well qualified and up to the challenge.

X. Final Recommendation

The Inter-Agency Review Committee, functioning as the “governmental body” under IC 5-23, hereby recommends to you that the State enter into a “Master Services Agreement regarding the Division of Family Resources’ Modernization Project between the State of Indiana, acting on behalf of the Indiana Family and Social Services Administration” in substantially the same form as attached to this recommendation as *Exhibit B*. The agreement with the IBM Coalition fulfills the following policy and administrative objectives that you charged the Review Committee to ensure that the State achieved through any external modernization effort that may be recommended:

- Meet the goals of improved welfare policies and procedures,
- Satisfy the State’s request that State employees who go to work for the selected vendor receive the same or better base salary and comparable benefits,
- Be in the best interests of Indiana’s taxpayers, and
- Provide short-term and long-term economic benefits to the State.

This recommended public-private agreement will best support FSSA and DFR administratively by developing and providing technology and systems for the Information Intake Process for receiving and processing applications for public assistance, gathering and verifying appropriate data, and managing through document imaging the documentation required for DFR to perform eligibility determinations. Essential governmental functions and governmental oversight and control will be retained by the State.

The proposed contract has been submitted to the United States Department of Agriculture, Division of Food Nutrition Services (FNS) and the United States Department of Health and Human Services, Centers for Medicare and Medicaid Services (HHS/CMS) for their review and comment on compliance with and adherence to federal law requirements. The Review Committee recommends that this Agreement be awarded after the public has had the right to comment on it at a public hearing pursuant to IC 5-23 and when the appropriate federal officials confirm that it is not inconsistent with their requirements and that federal funding will not be jeopardized.

As required by IC 5-23-5-9 and IC 5-23-5-10, this document is the comprehensive explanation of the basis upon which the recommendation is being made.

Signatures of Review Committee Members



Earl Goode, Chairman of Review Committee
Chief of Staff
Office of the Governor

11/22/06
Date



Karl Browning, Review Committee Member
Chief Information Officer
Indiana Office of Technology

11/22/06
Date



Charles Schalliol, Review Committee Member
Director
Office of Management and Budget

11/22/06
Date



Nate Feltman, Review Committee Member
Executive Vice President
Indiana Economic Development Corporation

11/22/06
Date



Debra Minott, Review Committee Member
Director
Indiana State Personnel Department

11/22/06
Date



Carrie Henderson, Review Committee Member
Commissioner
Department of Administration

11/22/06
Date